

CATALOGUE FOR PHILANTHROPY



Memorandum

To: Rep. Charles Boustany Jr., Chairman, Subcommittee on Oversight,
Committee on Ways and Means, U.S. House of Representatives
From: George McCully, President and CEO
Re: To Assist Your Targeting—The Actual Structure of the Non-Profit Sector, and Where Lost Revenue Is
Date: 15 May 2012

Our organization has examined the Massachusetts IRS Master File of Tax-Exempt Organizations, to identify the philanthropic charities among all other “nonprofits”. This is the first detailed study of any state’s tax-exempt sector, and it has produced striking discoveries, of value to your Subcommittee’s inquiry.

Research Conclusions:

- 1) Everyone believes that “nonprofit” organizations are “tax-exempt” because they are “philanthropic”—i.e., private initiatives, for public good, relying for revenue on grants and donations (i.e., participating in the philanthropic marketplace). In fact, only about one out of ten (10%) “nonprofits” are philanthropic by that definition.

Significance: This means that “nonprofit” is very far from synonymous with “philanthropy”; and that public benefit should not be inferred from the mere fact of tax exemption.

- 2) 75% of “nonprofit” institutions are basically self-serving and self-supporting, and have nothing to do with philanthropy—e.g., condo associations, professional and trade associations, social (including yacht and country) clubs, sports clubs, alumni associations, PTAs, teachers retirement funds, cemeteries, etc. The remaining 25% are: a) indisputably philanthropic (10%—see definition above) or b) somewhere problematically between the two cohorts (15%).

Significance: Because the 75%—more than 1 million institutions nationwide—are primarily self-serving organizations, their privileges of tax exemption should be questioned. Their reclassification in the tax code would produce substantial revenue.

- 3) Within the philanthropic cohort (ca. 140,000 institutions nationwide), the vast majority (92% in Massachusetts) are very small organizations, with revenues below \$1 million.

Significance: Among philanthropies, only a small minority—e.g., large universities, hospitals, cultural institutions, national organizations—have large enough revenues to be taxed appreciably. Focus on the biggest ones.

- 4) The tax code never foresaw tax-exempt institutions with billion-dollar endowments. At that level, annual revenues in capital gains—endowment yields of 12-20%—are larger than any organization can possibly spend, year after year, on institutional growth. Since those surpluses cannot be distributed to private shareholders, they can only be paid out in salaries for top executives and/or plowed back into endowment—creating a positive-feedback loop that balloons endowment beyond practical application.

Significance: Those excess profits, carefully defined, might profitably be taxed.

Conclusion: The Subcommittee would do well to focus on the 75% of non-philanthropic tax-exempt organizations that are basically self-serving and of questionable public benefit; and on the very small number of very large philanthropic organizations that are profit-making.

Institutional Identification:

The *Catalogue* began in 1997 as a collaborative project of about 20 leading foundations, corporations, and individual donors across Massachusetts, to increase our charitable giving through donor education. We originated the national Generosity Index (1997-2006), which ranked states according to the disparities of their ranks in income and giv-

ing, and an annual high-end *Catalogue for Philanthropy* (1997-2007) mailed every November to 200,000 affluent homes statewide. We played a leading role in doubling Massachusetts giving, from \$2 billion to \$4 billion, in only four years (1997-2000), on an investment of \$2 million. With the onset of the Recession we turned our attention to creating the *Massachusetts Philanthropic Directory*, which launched in 2011 (<http://www.philanthropicdirectory.org>), a complete, systematic, analytical, on-line, *Directory* to all the philanthropic charities in the Commonwealth. We shall extend this system nationwide over the next several years.